



Building better business.

Welcome to our June update.

In this edition we present to you our new company branding which includes a complete revamp of our website as well as the look and feel of our practice. Our tag line "Building Better Business" is what we are about as a business and is portrayed in our building block logo.

This month's newsletter contains a summary of important changes arising from the recent Government Budget. We have also included a couple of topical articles about low cost assets and operating a business on Trade Me.

Craig McCoy - Director



Budget 2010

Finance Minister Bill English delivered his second budget "Building the Recovery" recently, which focused on reforming the New Zealand tax system.

A key point of the budget was the overall reduction in personal tax rates applying from 1 October 2010, coinciding with the increase in the rate of GST to 15% from the same date.

The current and proposed tax rates are:

Taxable Income	Tax Rate (to 30/9/2010)	Tax Rate (from 1/10/10)
\$0 - \$14,000	12.5%	10.5%
\$14,001 - \$48,000	21%	17.5%
\$48,001 - \$70,000	33%	30%
\$70,001 +	38%	33%

The Government estimates that someone earning \$44,000 per annum will be better off by \$593 (or \$11 per week in the pocket) when the income tax and GST rates changes are combined.

The reduction in the top personal tax rate to 33% will also remove much of the tax benefits of sheltering income in Trusts.

Business Taxation

An unexpected change in the Budget was the reduction in the Company tax rate to 28% from the current 30% rate, effective from the start of the 2011/2012 income year (for most companies 1 April 2011).

However, this rate reduction coincides with the removal of the 20% loading on depreciation rates for new assets acquired after 20 May 2010. Perhaps a case of giving with one hand while taking with the other for business?

We offer:

- Fixed price annual accounts
- Monthly payment options
- Agreed deadlines for delivery of accounts
- Free initial consultation
- Business advisory services

"Craig, Sandy, Kate @ Shane @ the team at Smith McCoy Alford have been a vital ingredient in the success of COP Ltd. Their value is not just in the timely accuracy of their accounting work but even more particularly we acknowledge their wise council and advice in growing our business through changing and volatile times."

Simon Chapman - Managing Director
Chainsaw and Outdoor Power Limited

Important dates 2010:

- 28 Jun - May GST due
(including tax payers using ratio gst)
- 28 Aug - First provisional tax due
installment for March balance date

Preparing for a GST Rate Increase

Businesses have just over three months to manage the impact of the increase, so it is necessary to plan now to ensure the change does not incur unnecessary costs or risks.

As a minimum, all businesses should consider the following:

- Can you maximise any opportunities in consumer demand before the rate increase, and what impact will the rate increase have on demand after 1 October 2010?
- What impact does the rate increase have on any marketing or communication?
- Can you fully increase the price charged to customers to cover the increase in GST, or will the increase be partially absorbed by the business?
- Will the rate increase affect your working capital / funding requirements?
- What changes do you need to make to your accounting systems?
- Can your accounting systems issue correct tax invoices and credit notes at both the new and old GST rates?
- Can your accounts payable systems process invoices at both the new and old GST rates?
- Do you have to make a payments basis GST adjustment?
- Do you have any installment transactions subject to GST (leases, hire purchases, lay-bys etc) that could be effected by the rate increase?
- How will contracts that span 1 October 2010 be impacted?

If you need further assistance to manage the impact of the increase, please contact us.

Changes to Property Taxation

The budget announced changes to the tax depreciation rules for both residential and commercial properties. From the 2011/2012 income year (for most taxpayers 1 April 2011), a depreciation rate of “zero” percent will apply to all buildings with an estimated life of 50 years or more.

Recently, Inland Revenue issued an Interpretation Statement clarifying the extent to which residential property chattels could be split out from the building and depreciated separately at higher depreciation rates. This is some comfort to residential property owners, who from the 2011/2012 income year may still be able to claim depreciation on those separately identifiable chattels.

In line with this, the Government has also signalled that the treatment of commercial building fit-out will also be reviewed to clarify the split between buildings and fit-out.

However, on a more positive note, the budget did not introduce measures such as limiting interest deductibility or ring-fencing of rental losses.

Qualifying and Loss Attributing Qualifying Companies

In line with the Government's impression that “many investors hold property through loss attributing qualifying companies, or LAQCs”, it has announced changes regarding taxation of both qualifying companies (QCs) and loss attributing qualifying companies (LAQCs). From 1 April 2011, these types of companies will become “flow-through” entities for tax purposes, with the partnership rules applying rather than the company rules. The stated aim of this change is to ensure both profits and losses are assessed at the marginal tax rate of the shareholder(s).

As a result of these changes, shareholders will be subject to the special disposal rules in the partnership rules on the disposal of their shares. The loss limitation rules will also apply, effectively limiting the ability of shareholders to offset attributed tax losses to the amount that each shareholder has invested in the company. The shareholder's investment (or “membership base”) would include the initial equity invested, along with undistributed earnings of the company and the share of any debt guaranteed by the shareholder.

The new rules will also mean that where investors want to be able to access the losses at their own personal tax rate by passing through the

losses in the bad years, they must also pay tax on the income in the good years at their personal rates. With the removal of depreciation on residential properties (still the major use of LAQCs), there are likely to be more income-generating years relative to loss years going forward. Investors may need to reconsider whether an LAQC is still the appropriate vehicle to hold such an investment.

Low Cost Assets:

Yes they can be expensed!

To reduce some of the compliance costs to business having to maintain fixed-asset registers, purchases of capital assets that cost equal to or less than \$500 excluding GST can be expensed in the year that the expenditure is incurred. The idea is to reduce the number of assets that businesses must annually account for on their fixed-asset registers. The \$500 threshold applies to assets acquired on or after 19 May 2005.

Trade Me:

If you're regularly selling things online you might have to pay tax.

Selling a lot of things online or selling things regularly might mean you are in business and you may have tax obligations you didn't know about. This does not include hobbyists or the occasional trader. Your tax obligations if you trade regularly however, are exactly the same regardless of whether you sell online or in a shop.

As well as income tax, businesses with online sales of over \$60,000 a year are required to register for GST. Like any other business, sufficient records must be kept for seven years to substantiate your income and expenses.

If you can answer yes to some or all of the following questions we suggest you contact us for advice so we can work out what your tax obligations are.

- Did you buy goods with the intention of reselling them?
- Did you intend to make a profit from the sale?
- Is your annual turnover more than \$60,000 a year?
- Do you expect your turnover to be more than \$60,000 in the next 12 months?
- Is selling online part of an already established business?

If you think you should have included your online sales in your tax return but didn't, you should consider making a voluntary disclosure. Please contact us if you would like further clarification or assistance.



Directors (left to right), Kate Alford, Shane Welsh, Craig McCoy, Sandy Smith & Associate Bevan Ralfe